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STAFF REPORT

BOARD MEETING DATE: December 9, 2014

DATE: October 7, 2014
TO: Board of County Commissioners
FROM: Alison A. Gordon, CPA, CFE AG
Washoe County Internal Audit Manager
328-2064, agordon@washoecounty.us
THROUGH: John Slaughter, County Manager
SUBJECT: Acknowledge Receipt of Incline Village – Crystal Bay Justice Court
Minimum Accounting Standards Audit Report from the Internal Audit
Division

SUMMARY

The purpose of the audit was to perform the four-year audit of the Incline Village – Crystal Bay Justice Court as required by the Minimum Accounting Standards (MAS) adopted by the Nevada Supreme Court. This included evaluating whether the procedures performed by Incline Village – Crystal Bay Justice Court comply with the MAS requirements for Nevada justice courts.

Based on the results of these procedures, we noted certain items, which represent instances of non-compliance with the MAS.

The results of the review indicated:

The Court needs to ensure it complies with the MAS requirement to follow PCI Data Security Standards for customer payments with debit and credit cards. The Court was unaware of this new requirement in the MAS. Once identified, the Court has started working on its compliance with the PCI Data Security Standards, including the questionnaire, and development of policies and procedures.

The Court needs to improve its accounts receivable processes for outstanding monetary penalties imposed by the court. First, the Court needs the ability to create and maintain a computerized aging report with the amounts of monetary penalties imposed by the court by case, on a monthly basis. The Reno Justice Court is in the process of having an aging report developed which can be used by all County courts using the Odyssey system.

Several instances were noted where accounting controls needed improvement. This includes ensuring approval of all invoices prior to payment and review and approval of void checks.

AGENDA ITEM # 812

The Court needs to enhance its policies and procedures to include a requirement for a secondary review and approval of void checks, as well as updating the policies and procedures for operational changes resulting from the implementation of the new Odyssey case management system.

Each of the recommendations included in this audit report are either already implemented or in the process of being implemented. An implementation plan establishing responsibilities and timelines will be developed with the Incline Village – Crystal Bay Justice Court. This plan will then be reviewed with the Audit Committee and updated at each of their meetings. Implementation of recommendations having fiscal impact will be brought to the Board of County Commissioners for approval.

County Priority/Goal supported by this item: Government Efficiency and Financial Stability

PREVIOUS ACTION

No previous action has been taken on this Board item.

BACKGROUND

The Incline Village – Crystal Bay Justice Court's mission is to promote and preserve the rule of law and protection of property rights by providing a fair, independent, and impartial forum for the peaceful resolution of legal conflicts according to the law. Further, it is the mission of the court to provide judicial services in such a manner as to: 1) promote access to justice; 2) adjudicate cases in an expeditious and timely manner; 3) utilize public resources efficiently and effectively such that it demonstrates accountability and engenders public trust and confidence; and 4) promote an understanding of the courts as a vital component of the tripartite system of government, independent of and co-equal to the Legislative and Executive branches.

Nevada's justice courts are established by the Constitution of the State of Nevada. They are courts of limited jurisdiction for their respective townships. The Courts preserve order and the rule of law by adjudicating criminal and civil cases before the court pursuant to local ordinances, state laws, the Nevada Constitution, and the Constitution of the United States.

The Nevada Supreme Court provides oversight of all court functions within Nevada. The Chief Justice is considered by law to be the administrative head of the court system with the support of the Administrative Office of the Courts (AOC). NRS 1.360 states, in part, that under the direction of the Supreme Court, the AOC shall examine the administrative procedures used by all courts and make recommendations for improvement of those procedures. In addition, the AOC is to develop procedures for accounting, internal auditing, procurement, and disbursement to the state court system.

In February 1997, the Nevada Supreme Court issued an order adopting the MAS for Nevada's justice and municipal courts. MAS version 3.0 issued January 2012 provides the courts with policy defining requirements for a court's financial operations and internal accounting and financial management controls. The courts are required to use the MAS policies to develop their individual procedures for internal controls to ensure

separation of duties to help prevent misappropriation of public funds or other associated crimes. The court's procedures will also establish means for ensuring the reliability of the court's records and detection of errors.

The revised MAS requires all justice, district and municipal courts to submit their written procedures electronically to the AOC Audit Unit biennially no later than December 31 in the first year established for their submission in the Supreme Court's Order. The first year established for Washoe County courts was December 2012. In addition, the courts must have an independent MAS conducted by either an outside audit firm or internal audit agency on each justice, district and municipal court every four years. For Washoe County courts, the first independent audit is due December 31, 2014. Based on discussions with the AOC staff responsible for the MAS, it was determined the County's Internal Audit Division could perform the required independent MAS audit. This will save the court the cost of hiring a contractor to perform this work.

SCOPE AND METHODOLOGY

The scope of the audit included evaluating the practices used by the Incline Village – Crystal Bay Justice Court for efficiency and effectiveness. It also included reviewing internal controls and compliance with County policies, applicable NRS, and MAS.

This audit was conducted in accordance with Generally Accepted Government Auditing Standards, and covered the period of July 2013 to June 2014. Fieldwork was conducted between June and August 2014.

FISCAL IMPACT

This report has no fiscal impact. However, implementation of some recommendations may have fiscal impact.

RECOMMENDATION

It is recommended the Board of Commissioners acknowledge receipt of the MAS audit report of Incline Village – Crystal Bay Justice Court.

POSSIBLE MOTION

Should the Board of Commissioners acknowledge receipt of this audit report, a possible motion would be:

Move to acknowledge receipt of the Incline Village – Crystal Bay Justice Court MAS Audit Report from the Washoe County Internal Audit Division.

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Attachments

Washoe County
Incline Village – Crystal Bay
Justice Court

MAS Audit Report

October 7, 2014

Executive Summary

Observations

1. The Incline Village – Crystal Bay Justice Court needs to ensure it complies with the Minimum Accounting Standards, MAS, requirement to follow PCI Data Security Standards for customer payments made with credit and debit cards.
 - The Court was unaware of this new requirement in the MAS.
 - Once identified, the Court started working on its compliance with the PCI Data Security Standards.
 - Non-compliance could involve various consequences including lawsuits, insurance claims, payment card issuer and government fines should customer data become compromised.
2. The Incline Village – Crystal Bay Justice Court needs to improve its accounts receivable processes for outstanding monetary penalties imposed by the court.
 - The Court needs the ability to create and maintain a computerized aging report with the amounts of monetary penalties imposed by the court by case, on a monthly basis.
 - The Court will be able to use a new Odyssey report being developed by Reno Justice Court that will provide an aging report of monetary penalties imposed by the Court by case and will develop related policies and procedures.
3. The Incline Village – Crystal Bay Justice Court needs to enhance certain accounting controls. These include:
 - Ensuring all disbursement documents are approved prior to payment, and,
 - Having a second court member review and approve void checks,
4. The Incline Village – Crystal Bay Justice Court's policies and procedures need updating.
 - As part of the audit, we compared the Court's operations against their established policies and procedures.
 - The Courts policies and procedures did not require a second staff member or supervisor review to approve void checks, and had not been revised to include new practices resulting from the implementation of the Odyssey case management system.

Observations and Recommendations

1. Payment Card Industry Data Security Standards Compliance

Incline Village - Crystal Bay Justice Court needs to ensure it is complying with the Payment Card Industry Security Standards (PCI-DSS) as required by the current Minimum Accounting Standards. At the beginning of the MAS audit, the Incline Village - Crystal Bay Justice Court was unaware of this new requirement. However, when it was identified as part of the MAS audit the court has begun working to comply with the MAS; and the Reno Justice Court provided Incline Village - Crystal Bay Justice Court with copies of its completed questionnaire as well as the policies and procedures it developed for use as a template.

The PCI DSS represents a common set of industry tools and measurements to help ensure the safe handling of sensitive payment card information. Compliance with PCI DSS means that systems are secure and customers can trust the safe handling of the sensitive payment card information among other benefits.

Tools to assist organizations in validating their PCI DSS compliance include Self-Assessment Questionnaires. Additionally, organizations are required to ensure the vendors involved with processing credit card transactions and any software used is PCI DSS compliant. Also, the MAS requires the courts to have policies and procedures in place regarding compliance with PCI DSS.

Noncompliance could have serious ramifications including compromised data that negatively affects customers, merchants and financial institutions, and damage to the County's reputation. Other possible negative consequences include lawsuits, insurance claims, payment card issuer fines and government fines.

Recommendations:

- 1.1 Perform analysis and complete the PCI DSS self-assessment questionnaire,*
- 1.2 Obtain documentation from vendors involved with processing credit card transactions, and,*
- 1.3 Develop PCI-DSS policies and procedures.*

2. Outstanding Monetary Penalties Imposed by the Court

Incline Village - Crystal Bay Justice Court needs to ensure it is complying with MAS requirements involving outstanding monetary penalties imposed by the court. Specifically, the MAS states the court should be able create and maintain either a manual or a computerized aging report with the amounts of monetary penalties imposed by the court on a monthly basis. This report should include the defendant's name, the case number, the fees originally owed to the court, outstanding dollar amounts, and the number of days amounts are outstanding based on the 30, 60, 90, 120+ day aging periods.

During the review it was found the Odyssey system does not have an aging report that showed the amounts past due for each case. Instead, the Odyssey system only had an aging report showing the amounts past due for each fee type. In addition, the current policies and procedures do not address creating and maintaining a monthly aging report.

As of the date of this report, the Reno Justice Court is in the process of developing an Odyssey system aging report by case, and once developed this report will be available to all justice courts in Washoe County using Odyssey including the Incline Village - Crystal Bay Justice Court.

Recommendations:

The Incline Village - Crystal Bay Justice Court should:

- 2.1 Once available, maintain computerized aging reports showing the amounts of monetary penalties imposed by the Court for each case on a monthly basis, and,*
- 2.2 Develop and implement policies and procedures regarding the maintaining a monthly aging report of the outstanding amounts of monetary penalties imposed by the court, by case.*

3. Accounting Controls

Disbursement Document Approvals

The Incline Village – Crystal Bay Justice Court needs to comply with best practices and the MAS regarding disbursement documents. Specifically, the Court needs to ensure it approves all disbursement documents prior to payment. As part of the audit, a random sample of operating expenses was selected for testing. For one of these items, there was no evidence of supervisor approval of the invoice for payment. Policies and procedures are in place requiring supervisor approval but were not followed in this instance.

An adequate system of internal controls includes supervisor review and approval of all invoices prior to payment. The review and approval ensures invoices being paid are in accordance with purchasing and receiving documents.

Review of Void Checks

The Incline Village – Crystal Bay Justice Court needs to ensure void checks are prepared by one individual and reviewed and approved by a supervisor. Two or 100% of the courts void checks during FY2014 were selected for testing using a report from the Odyssey system. Neither of the void checks showed supervisor review and approval.

Best practices include having void disbursements reviewed by a supervisor or another court member. This review helps ensure voided disbursements have been properly voided so no one can present it to a bank at a later date and be paid for it.

As of the date of this report, the Court reports it is now ensuring all invoices are approved prior to payment and developed and implemented procedures requiring review and approval of void checks.

Recommendations:

The Incline Village - Crystal Bay Justice Court should ensure:

- 3.1 All invoices are approved prior to payment, and*
- 3.2 Void checks are reviewed and approved.*

4. Policies and Procedures

The Incline Village – Crystal Bay Justice Court’s policies and procedures need enhancement. Currently, the Court has policies and procedures documented. As required by the MAS Audit Guidelines, we performed a comparison of the Court’s policies and procedures addressing the MAS Checklist requirements and noted the current procedures do not fully address the controls required by MAS for voiding checks. In addition, the policies and procedures have not been updated to include changes resulting from the implementation of the new Odyssey case management system.

As of the date of this report, the Court is in the process of revising its policies and procedures to fully address MAS requirements and account for changes resulting from the new Odyssey system.

Recommendations:

The Incline Village – Crystal Bay Justice Court needs to:

- 4.1 Ensure its policies and procedures are in accordance with MAS requirements, and,*
- 4.2 Update the policies and procedures when operational practices change.*